Automotive

Nationals Brand Set a Clear Path

NEUTRAL
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By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We remain NEUTRAL on the sector. We estimate that national marques will expand their market dominance to 64% of CY25 TIV (vs. 58% in CY22), due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share. Although we make no changes to our TIV forecast, we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space. If such pressures persist, such as with more foreign brands localization programme, the challenging outlook for non-national brands could persist into CY26. Our CY25 TIV forecast of 805k units (-2% YoY) is a tad above the forecast of 780k (-4.4% YoY) by the Malaysian Automotive Association (MAA), backed by strong sustained demand in the affordable segment, benefit of fuel subsidies being expanded to all Malaysian (compared to prior expectation of income-based targeting), attractive new launches, and forward buying interest on the deferment of new excise duty regulations to end-2025 in which we expect Perodua to benefit the most. MBMR (OP; TP: RM7.00) and HLIND (OP; TP: RM17.70) are our sector picks, being good proxies to the strong sales of affordable vehicle market besides offering attractive dividend yield of about 9% and 6%, respectively.

National marques in the lead. Based on our TIV forecast of an unchanged 805k units for CY25, we estimate that national marques will expand their market dominance to 64% of CY25 TIV compared to 58% of TIV in CY23, due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share on which their target focus is mostly in the RM100k-and-above vehicles segment (refer to exhibit 3). This was evident in our stock coverage over the 1HCY25 results season, and we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space i.e. **SIME (MP; TP: RM1.90)** and **DRBHCOM (UP; TP: RM0.70),** which we already factored into our valuations after few rounds of weak quarterly results. If the intense competition further ramps up with mass localisation of foreign brands and the market become even more fragmented, the challenging outlook for non-national brands could persist into CY26. BYD has recently unveiled its plan for EV production in Tanjong Malim, Perak, set to begin production in late 2026 and Chery is already developing a large-scale Chery Smart Auto Industrial Park in Selangor, while TQ-Wuling Bingo is looking to do semi knocked-down (SKD).

Our CY25 TIV forecast is 805k units (-2% YoY), driven by strong sustained demand in the affordable segment, fuel subsidies being expanded to all Malaysian (compared to prior expectation of income-based targeting) which partly remove the uncertainty in the mid-market segment (despite still facing intense pricing competition from Chinese brands which are flooding the market with attractive and value-for-money new models), forward buying interest on the deferment of new excise duty regulations to end-2025 (that could have resulted in prices of locally assembled vehicles increasing by 10%−30%), in which we expect Perodua to benefit the most at 44% TIV market share with the highest localisation rate, attractive new launches (i.e. Perodua hybrid, Perodua EV and all-new Perodua Myvi), higher household income (i.e. higher government servants' salary starting December 2024 and higher minimum wages starting February 2025) and a stable labour market (our economic research team forecast unemployment rate of 3% in CY25 vs. 3.3% in CY24).

In general, the industry's earnings visibility is still good, backed by a booking backlog of 150K units as at end-August 2025. More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers. This trend is likely to persist till end-CY25 and flow into CY26, given the strong line-up of new launches.

Gradual transition to battery electric vehicles (BEVs). We expect gradual transition to BEVs which currently enjoys SST exemption and other EV facilities incentives up until 2025 for imported CBUs and 2027 for locally-assembled CKDs. Looking further, we also have a nuanced view of EV adoption eventually picking up and gasoline demand will eventually peak, but we do not think that will happen in the next five years due to infrastructure challenges. This new petrol subsidy mechanism, in our view, could make the transition even slower than earlier expected as the middle- and lower-income group now have less incentive to switch from ICE to EV for the time being. Recall that, the new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 13,301 units in CY23, and 21,789 units in CY24 (based on the Ministry of Transport's press release), or 3% of TIV. Malaysia aims for electric vehicles (EVs) to represent 20% of new vehicle sales by 2030, with longer-term vision extends to 80% by 2050 (including hybrids vehicles). Government currently focused on building out the EV ecosystem, including establishing 10,000 public charging points by 2025 (no updated target yet, despite the current build-to-date lagging behind with less than 50% of the target) with current number of proposed charging stations currently at 4,477 (4,161 built-to-date) and providing tax incentives to stimulate adoption and local production.

National brands widened product offerings. Apart from affordability, Perodua and Proton models have outsold non-national brands as they have also caught up in terms of specifications and features such as digital speedometer, fuel-efficient engine, highly-responsive gearbox, advanced driver assistance system, the number of airbags (4 to 6) and anti-theft auto-locking system.

Perodua is introducing three new models priced <RM100K in 2025 and 2026, namely: (i) the Perodua D66b (could be trademarked as Perodua Nexis) built on the latest Daihatsu new global architecture platform, (ii) the first Perodua EV model (could be trademarked as Perodua QV-E), and (iii) all-new Perodua Myvi in 2026.

These should give the B-segment offerings of its competitors a run for their money, including the Proton e.MAS EV (CBU, RM109K−123K) and Toyota Yaris Cross (due for launching by end-2025).

On the other hand, Proton is riding on parent Zhejiang Geely Group's technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023−2027 (EV Pioneering), (ii) Phase 2 in 2025−2030 (EV growth), and (iii) Phase 3 in 2027−2030 (EV right-hand development hub).

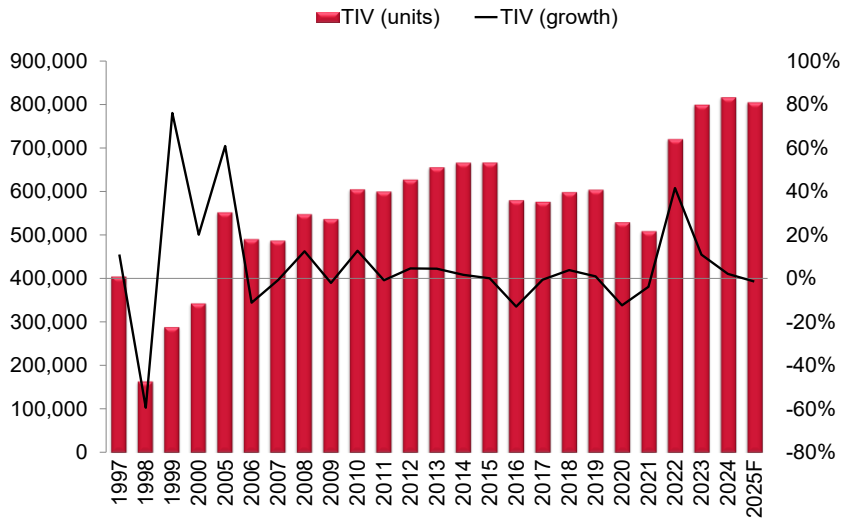
In the space of non-national brands, we saw the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV & hybrid models (see Exhibit 3), which could be in direct competition with **BAUTO (MP; TP: RM0.60)**. Notwithstanding, with the recent announcement on cheaper RON95 petrol price with subsidies for all Malaysian licensed drivers, we expect positive sentiment as well for **BAUTO** which has been on a more gradual transition towards EVs (its Mazda brand still form the largest unit sales of its vehicles, despite having Xpeng EV brand under its line-ups).

Our sector top picks are:-

MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of over 94k units (CY25 target sales of 345k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 9%. We also expect MBMR to benefit from the slew of new launches planned for Perodua (new models fetch higher margins), expansion of its dealership offerings through the Jaecoo brand and the down-trading trend by buyers boosting demand for its affordable Perodua brand and the value-for-money Jaecoo brand.

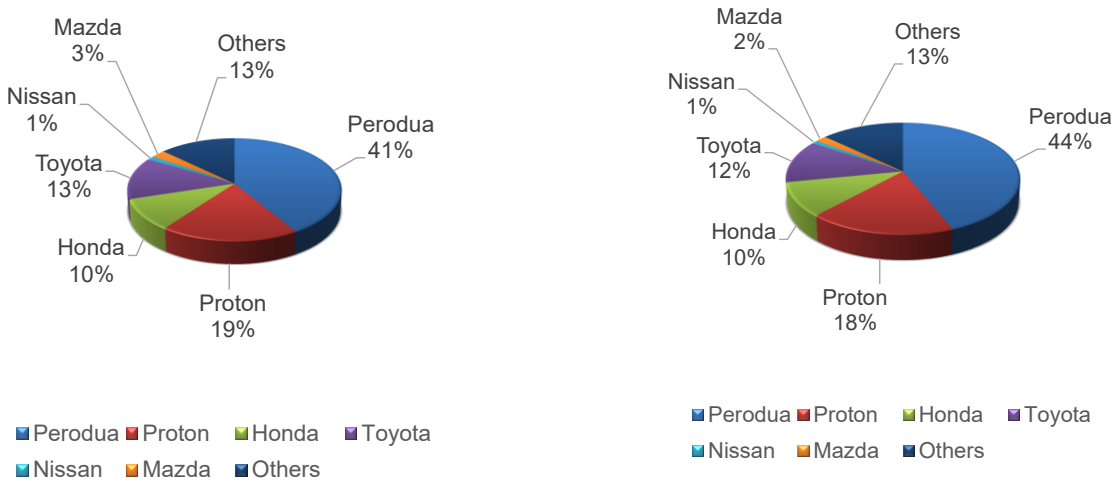
HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM2.0b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 6%. We anticipate robust demand for the motorcycles market (to achieve a record year of 700K units (+11%) in 2025, with Yamaha holding the lion's share of 50%).

Exhibit 1: TIV Volume 1997−2025F



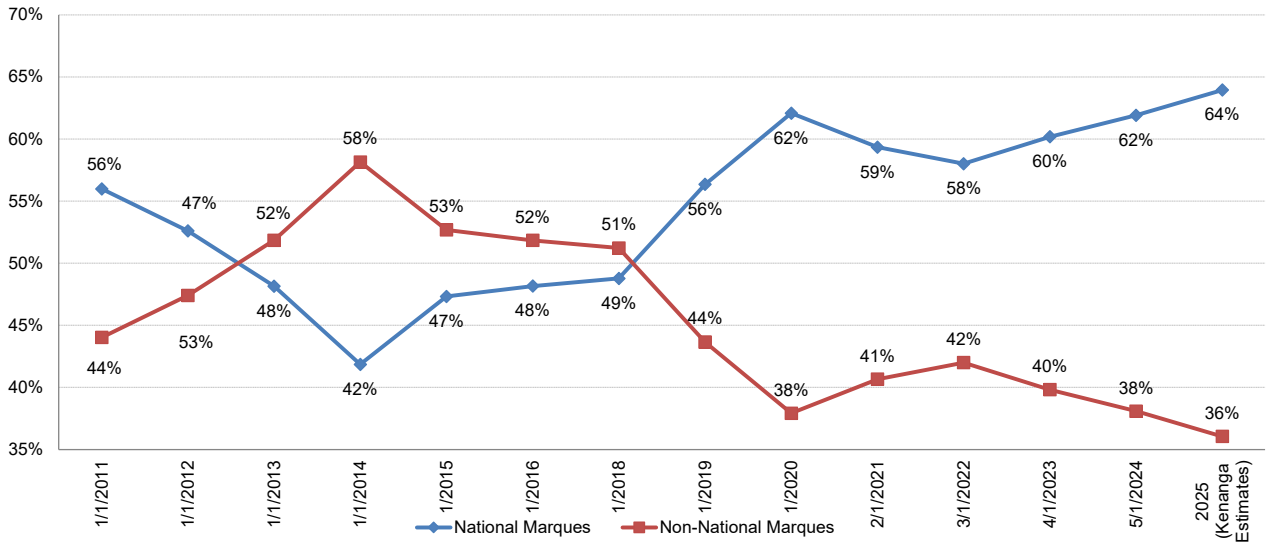
Source: MAA, Kenanga Research

Exhibit 2: Market Share by Brands CY23A vs. CY25F



Source: MAA, Kenanga Research

Exhibit 3: Nationals vs. Non-Nationals Market Share



Source: Kenanga Research, MAA

Exhibit 4: Various New EV Models

Perodua QV-E

HONDA e:N 1

Xpeng X9

Tesla Cybertruck (SUV)

All-new SMART #3 (2024)

BYD BAO 5

BYD Dolphin

Jaecoo J6 / Icaur 03

TQ-Wuling Bingo

GAC Aion Hyper HT

Proton eMas 7

Proton eMas 5

Source: Paultan.org, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM) as at 19.09.25	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	0.650	0.600	-7.7%	782.7	Y	04/2026	6.2	9.4	-53.6%	51.1%	10.4	6.9	1.0	9.8%	5.0	7.7%
DRB-HICOM BHD	UP	1.01	0.700	-30.7%	1,913.9	Y	12/2025	6.2	8.1	101.5%	31.1%	16.3	12.4	0.2	1.2%	3.0	3.0%
HIL INDUSTRIES BHD	MP	0.750	0.800	6.7%	249.0	Y	12/2025	9.6	9.6	-24.6%	0.3%	7.8	7.8	0.5	6.5%	2.0	2.7%
HONG LEONG INDUSTRIES BHD	OP	13.86	17.70	27.7%	4,472.6	Y	06/2026	147.1	150.2	-4.0%	2.1%	9.4	9.2	1.7	18.4%	80.0	5.8%
MBM RESOURCES BHD	OP	5.19	7.00	34.9%	2,040.4	Y	12/2025	86.5	87.6	1.5%	1.3%	6.0	5.9	0.8	12.9%	51.0	9.8%
SIME DARBY BHD	MP	2.19	1.90	-13.2%	14,789.8	Y	06/2026	18.6	20.0	8.3%	7.8%	11.8	10.9	0.8	6.5%	14.0	6.4%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.575	0.300	-47.8%	381.2	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.2	-7.7%	1.0	1.7%
SECTOR AGGREGATE					**24,629.6**					**4.7%**	**9.8%**	**11.6**	**10.6**	**0.6**	**5.5%**		**5.3%**

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my